

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

ILONA WOOD,) Case No.: C-05-1344 PVT
Plaintiff,)
v.)
RANDI APODACA, ET. AL,)
Defendant.)
)
**ORDER GRANTING MOTION TO
DISMISS WITH LEAVE TO AMEND
AND MOTION FOR A MORE
DEFINITE STATEMENT**

On June 14, 2005, the parties appeared before Magistrate Judge Patricia V. Trumbull for hearing on a motion to dismiss under Rule 12(b)(6) or, in the alternative, for a more definite statement under Rule 12(e). The motion was filed by Defendants Randi Apodaca (“Apodaca”), Anita Spol (“Spol”), and VHM Sports, Inc. (“VHM”).¹ All parties have consented to Magistrate Judge Jurisdiction. Based on the briefs and arguments presented,

IT IS HEREBY ORDERED that Defendants' motion to dismiss is GRANTED with leave to amend the complaint as to Plaintiff's claim of interstate commerce and DENIED as to the remaining causes of action, as discussed below.

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¹ The holding of this court is limited to the facts and the particular circumstances underlying the present motion.

1 **I. BACKGROUND**

2 **A. FACTUAL BACKGROUND**

3 Plaintiff Ilona Wood alleges that, starting in 1996 and continuing to the present time, she has
 4 used the name and mark “Water Girl” as a trademark and Service mark in connection with products
 5 and services with an emphasis on women’s surfing and ocean sports apparel and equipment. (Pl.’s
 6 Compl. ¶ 7.) Plaintiff owns United States Trademark Registrations for use of the “Water Girl” mark in
 7 connection with retail stores, mail order services, sporting goods, newsletters, magazines, sunglasses
 8 and watches. (*Id.* at ¶¶ 8-9.)

9 Defendants Apodaca, Spol, and VHM own and operate a retail store in Los Gatos, California
 10 that features clothing, sporting goods, and accessories with an emphasis on women’s surfing and ocean
 11 sports apparel and equipment and uses the name “Water Girl” on the storefront and in marketing and
 12 advertising. (*Id.* at ¶¶ 10-12.) Plaintiff further asserts that Defendants’ use of the name “Water Girl” is
 13 likely to cause confusion, mistake or deception among consumers as to the source, quality, and nature
 14 of defendants’ goods and services. (*Id.* at ¶ 13.) Plaintiff claims that Defendants have made, and she
 15 has been deprived of, substantial sales and profits from their wrongful use of the “Water Girl” name.
 16 (*Id.* at ¶¶ 15-16.)

17 In or about June of 2000, Plaintiff entered into an oral partnership agreement with Apodaca and
 18 Spol (the “Partnership Agreement”). Under the Partnership Agreement, the partners agreed as follows:
 19 1) Apodaca and Spol would contribute \$250,000 to the Partnership; 2) Plaintiff would contribute her
 20 retail store, then doing business under the “Water Girl” mark in Encinitas, California; 3) the Partnership
 21 would open and operate a new retail store in Los Gatos, California, and Plaintiff authorized the store to
 22 use the “Water Girl” name and mark; 4) the Partnership would form a corporation known as “VHM
 23 Sports” and transfer the Partnership assets to the new corporation; and 5) The Partnership would issue
 24 shares giving Plaintiff sixty percent ownership of the corporation and splitting the remaining forty percent
 25 between Apodaca and Spol. (*Id.* at ¶ 20.)

26 Plaintiff alleges that she has complied with all of her obligations, but Defendants Apodaca and
 27 Spol did not contribute the \$250,000 and VHM did not issue any shares to Plaintiff. Additionally
 28 Defendants have refused to provide any accounting or to share the revenues of sales from the Los

1 Gatos store, despite continuing to use the “Water Girl” service mark. (*Id.* at ¶¶ 21-22.)

2 Plaintiff also alleges that Defendants Apodaca and Spol obtained her agreement to enter into
 3 the Partnership by fraud or mistake, in that Defendants promised to invest \$250,000 but never intended
 4 to make such investment. (*Id.* at ¶ 29.) Thus, Plaintiff asserts she is entitled to rescission under
 5 California Civil Code §1689(b)(1), which allows a party to rescind where consent was given by
 6 mistake or obtained by fraud. Plaintiff further asserts that Defendants’ failure to invest also entitles her
 7 to rescission under California Civil Code §§1689(b)(2), (4), for failure of consideration due to the fault
 8 of defendants and failure of consideration for any reason. (*Id.* at ¶ 29-31.) In addition, Plaintiff argues
 9 that she is entitled to rescission under California Civil Code §16801(5) for an unreasonably frustrated
 10 or not reasonably practicable partnership. (*Id.* at ¶ 23.)

11 Subsequent to June, 2000, Plaintiff clearly communicated to defendants her rescission of the
 12 Partnership Agreement and rescission of any permission to use the “Water Girl” service and trade
 13 mark. (*Id.* at ¶ 32.) In communications spanning from January 2001 to May of 2003, Plaintiff and
 14 Defendants agreed to the “Oral Rescission Agreement” in which: 1) Plaintiff regained ownership of the
 15 Encinitas “Water Girl” store and assumed all liabilities in connection therewith; 2) Defendants would
 16 own the Los Gatos store and would cease and desist from any further use of “Water Girl”, including
 17 taking down the “Water Girl” sign at the Los Gatos store; and 3) the parties waived any accounting as
 18 to the either the Encinitas or Los Gatos stores. This agreement was reaffirmed in May 2003. (*Id.* at ¶
 19 33.) “On learning” that Defendants had not fulfilled their verbal commitment to stop using the “Water
 20 Girl” mark, Plaintiff sent Defendants a “case and desist” letter dated April 26, 2004. (*Id.* at ¶ 34.)
 21 Plaintiff claims that she has complied with the terms of the Oral Rescission Agreement by continuing to
 22 operate the Encinitas store and assumption of all liabilities in connection therewith and relied upon the
 23 Oral Rescission Agreement in not bringing suit within the two year statute of limitations period for
 24 breach of oral contract under California Code of Civil Procedure § 339. (*Id.* at ¶¶ 37-38.)

25 **B. PROCEDURAL BACKGROUND**

26 Plaintiff filed her Complaint in state court, asserting causes of action for 1) Trademark
 27 Infringement; 2) Injunctive Relief; 3) Dissolution of Partnership under California Corporations Code
 28 Section 16801(5) and Accounting; 4) Rescission under California Civil Code §1689(b)(1), agreement

1 to enter into partnership obtained by fraud or mistake, California Civil Code §1689(b)(2) for failure of
 2 consideration due to the fault of defendants, and California Civil Code §1689(b)(4), failure of
 3 consideration for any reason; 5) Damages for Breach of Oral Rescission Agreement; 6) Specific
 4 Performance of the Oral Rescission Agreement; and 7) for Declaratory Judgment that Plaintiff is the
 5 owner of all rights to the use of the "Water Girl" mark and that Defendants are responsible for all
 6 liabilities of the Los Gatos Store.

7 **II. STANDARD OF REVIEW**

8 Under the federal notice pleading standard, a court may not dismiss a complaint for failure to
 9 state a claim unless "it appears beyond doubt that the plaintiff can prove no set of facts in support of his
 10 claim which would entitle him to relief." *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957); Fed. R.
 11 Civ. Proc. 8(a). In analyzing a motion to dismiss, the Court must accept as true all material allegations
 12 in the complaint, and construe them in the light most favorable to the nonmoving party. *NL Industries,*
 13 *Inc. v. Kaplan*, 792 F.2d 896, 898 (9th Cir. 1986). "However, conclusory allegations of law and
 14 unwarranted inferences are not sufficient to defeat a motion to dismiss." *Associated General
 15 Contractors of America v. Metropolitan Water Dist. of Southern California*, 159 F.3d 1178,
 16 1180 (9th Cir. 1998). A complaint or any claim therein should be dismissed without leave to amend
 17 only if the deficiencies of the complaint cannot possibly be cured by amendment. *Doe v. United
 18 States*, 58 F.3d 494, 497 (9th Cir. 1995).

19 Federal Rule of Civil Procedure 12(e) sets forth the requirements for a motion for a more
 20 definite statement: "if a pleading to which a responsive pleading is permitted is so vague or ambiguous
 21 that a party cannot reasonably be required to frame a responsive pleading, the party may move for a
 22 more definite statement before interposing a responsive pleading." Fed. R. Civ. P. 12(e).

23 **III. DISCUSSION**

24 **A. DEFENDANTS' MOTION TO DISMISS UNDER FED. R. CIV. P. 12(B)(6) IS GRANTED
 25 WITH LEAVE TO AMEND**

26 Defendants argue that Plaintiff's complaint should be dismissed under Rule12(b)(6) because 1)
 27 the complaint fails to state a claim for a trademark infringement; 2) the complaint fails to present a claim
 28 of dissolution or rescission of the partnership formed between Plaintiff and Defendant; and 3) the

1 statute of limitations on enforcement of the oral agreements Plaintiff claims for damages and specific
 2 performance of the oral rescission agreement.

3 1. *Plaintiff has Stated a Claim of Trademark Infringement Under the*
 4 *Lanham Act*

5 To prevail on a trademark infringement claim under the Lanham Act, a plaintiff must prove the
 6 existence of a trademark and the subsequent use of that mark by another in a manner likely to create
 7 consumer confusion. *See Comedy III Prods., Inc. v. New Line Cinema*, 200 F.3d 593, 594 (9th Cir.
 8 2000). Federal registration of a trademark provides constructive notice of registrant's rights to all
 9 potential infringers. 15 U.S.C. § 1072. Defendants maintain that under federal law, Plaintiff has not
 10 alleged facts of the "Water Girl" trademark's interstate commerce use by Defendants, has failed to
 11 allege that Defendant's use of the "Water Girl" mark was unauthorized, has failed to allege a likelihood
 12 of entry into Defendants' trade territory, and has abandoned her trademark.

13 a) Plaintiff has not alleged Interstate Commerce Use by Defendants

14 Plaintiff claims that Defendants use the "Water Girl" mark in their Los Gatos store in connection
 15 with marketing and advertising of women's surfing sports apparel and equipment. (Pl.'s Compl. ¶10-
 16 12.) However, Plaintiff does not allege in her Complaint that Defendants used the "Water Girl" mark in
 17 interstate commerce, as required by 15 U.S.C. § 1114(1). Accordingly, Plaintiff's complaint is
 18 dismissed with leave to amend as to Defendants' use if the "Water Girl" mark in interstate commerce.

19 b) Plaintiff has alleged that Defendants' use was unauthorized

20 In her complaint, Plaintiff states that on or about April 26, 2004, she advised Defendants that
 21 she was the lawful owner of the "Water Girl" mark and demanded that Defendants cease and desist
 22 from further use of the mark. (Pl.'s Comp. ¶¶ 14, 22.) Thus, Plaintiff has sufficiently plead
 23 unauthorized use under Fed. R. Civ. P. 8(2).

24 c) Plaintiff Need Not Allege a Likelihood of Entry

25 Defendants argue that Plaintiff must allege either a likelihood of entry into the Defendants' trade
 26 territory, *Mister Donut of America, Inc., v. Mr. Donut, Inc.*, 418 F.2d 838, 844 (9th Cir. 1969), or
 27 that the "Water Girl" mark has already entered into the defendants' trade area via the advertising
 28 media. *Koffler Stores, Ltd. v. Shoppers Drug Mart, Inc.*, 434 F. Supp. 697, 704 (E.D. Mich.

1 1976). Defendants further argue that, because Plaintiff's store is more than 430 miles from Defendant's
 2 store, Plaintiff has not alleged either entry or likelihood of entry into Defendants' trade area.

3 A plaintiff, however, need only allege likelihood of confusion, which Plaintiff has done (Pl.'s
 4 Compl. ¶ 13.) It is a *defense* against claims of trademark infringement under the Lanham Act to show
 5 use in a remote area prior to registration. 15 U.S.C. 1115(b)(5). Thus, Plaintiff is not required to
 6 make allegations of entry or likely entry.

7 d) Complaint discloses no abandonment

8 Defendants argue that allegations in Plaintiff's complaint imply that Plaintiff no longer owns or
 9 operates her retail store under the "Water Girl" mark, thus abandoning the use of the mark.
 10 Abandonment, however, is a defense under 15 U.S.C. § 1115(b)(2) and thus Plaintiff need not plead it.
 11 Additionally, Plaintiff has alleged continuous use since 1996. (Pl.'s Compl. ¶ 2.) Thus, other than
 12 failing to alleged Defendants' use in interstate commerce, Plaintiff has stated a claim under the Lanham
 13 Act.

14 *2. Plaintiff Has Stated a Claim of Trademark Infringement Under Common Law*

15 To state a claim of trademark infringement under California common law, a plaintiff need allege
 16 only 1) their prior use of the trademark and 2) the likelihood of the infringing mark being confused with
 17 their mark. *American Petrofina v. Petrofina of California, Inc.*, 596 F.2d 896, 897 (9th Cir. 1979)
 18 ("[W]hosoever first adopts and uses a trade name, either within or without the state, is its original
 19 owner"); *Toho Co., v. Sears, Roebuck & Co.*, 645 F.2d 788, 791 (9th Cir. 1981) ("Without
 20 likelihood of confusion there is no infringement under the California common law of trademarks").

21 Defendants argue that in order to claim common law trademark infringement, Plaintiff must
 22 show that she used the trademark in the same trade territory as the infringing party, or that the
 23 reputation of her mark extended to the infringing party's area and that the infringing party did not have
 24 good faith when they began using it. *See Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 419
 25 (1916) ("Tea Rose"); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 100 (1918).

26 The *Tea Rose-Rectanus* doctrine provides for a defense for a junior user if that user proves
 27 that (1) its first use was in good faith and (2) its first use was in a remote area. *Hispanic Broad. Corp.*
 28 *v. Educ. Media Found.*, 2003 WL 22867633, 6 (C.D. Cal. 2003), quoting 4 J. THOMAS

1 McCARTHY, McCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 26.4 (4th ed.). Plaintiff,
 2 therefore, need not plead either Defendants' bad faith or lack of remote area. Plaintiff claims that she
 3 has used the "Water Girl" trademark, which is allegedly registered to her, since 1996. Moreover,
 4 Plaintiff alleges that Defendants' use of the "Water Girl" mark has caused confusion. These allegations
 5 are sufficient for a statement of a claim on which relief may be granted. Defendants' motion to dismiss
 6 for failure to state a claim under common law is therefore denied.

7 *3. Plaintiff Has Plead Claims for Dissolution and Rescission of the Partnership*

8 Under California law, in order to dissolve the Partnership, Plaintiff must plead either that A) the
 9 economic purpose of the partnership is likely to be unreasonably frustrated; B) Defendant has engaged
 10 in conduct that makes it not reasonably practicable to carry on the business in partnership with
 11 Defendant; or C) it is not otherwise reasonable to carry on the partnership in conformity with the
 12 agreement. Cal. Corp. Code § 16801(5)(A),(B),(C). In order to rescind a contract, a plaintiff must
 13 plead that she gave consent relying on fraudulent or mistaken representations of another party, or that
 14 consideration for her obligation failed, either through the fault of another party or from any other cause.
 15 Cal. Corp. Code § 1689(b)(1), (2) and (4). Defendants argue that Plaintiff's third cause of action
 16 should be dismissed because Plaintiff has "completely failed" to provide any information as to whether
 17 the economic purpose of the partnership is unreasonably frustrated or whether it is reasonably
 18 practicable to carry on the business. Defendants also argue that Plaintiff's fourth cause of action should
 19 be dismissed because Plaintiff has failed to plead fraud with particularity, as required by Fed. R. Civ. P.
 20 9(b). Plaintiff has alleged that Defendants failed to invest the promised sum of \$250,000 toward the
 21 partnership. Defendants' alleged failure to fulfill their side of the bargain presents sufficient facts to state
 22 a claim for unreasonable frustration or impracticability. *See generally, Thomson v. Langton*, 51 Cal.
 23 App. 142 (1921) (holding that where firm capital has become so seriously impaired that further
 24 profitable conduct of business is impossible without fresh contributions or the negotiation of loans, a
 25 partner is entitled to dissolution).

26 Defendants also allege that Plaintiff has failed to plead claims of fraud or mistake with sufficient
 27 particularity. Claims of fraud or mistake should include 1) the time, place and content of fraud; 2) intent
 28 to deceive (scienter); and 3) facts showing falsity. *In re GlenFed, Inc. Secur. Litig.*, 42 F.3d 1541,

1 1547-48 (9th Cir. 1994) (en banc) *rev'd on other grounds*, 60 F.3d 591 (9th Cir. 1995). In
 2 promissory fraud claims where the aspect to which fraud is alleged is within the defendant's control at
 3 all times, an allegation that defendant did not fulfil their obligation is sufficient to create an inference that
 4 they never intended to do so. *Celador Intern. Ltd. v. Walt Disney Co.*, 347 F. Supp. 2d 846, 856
 5 (C.D. Cal. 2004).

6 In the instant case, Plaintiff has identified the time and content of alleged fraud – the June 2000
 7 agreement, where Defendants promised to contribute \$250,000 toward the partnership. She has also
 8 alleged falsity – Defendants' apparent refusal to contribute the \$250,000, where the decision to do so
 9 was within the Defendants' control at all times. Furthermore, she identified the Partnership Agreement
 10 as the source of the fraud. Lastly, Plaintiff has alleged Defendants' intent to deceive, which may be
 11 averred generally. Fed. R. Civ. P. 9(b). Although Plaintiff has not identified the place where the alleged
 12 fraud occurred, such identification is not necessary here, as “[a] pleading is sufficient under Rule 9(b) if
 13 it identifies the circumstances constituting fraud so that a defendant can prepare an adequate answer
 14 from the allegations.” *Moore v. Kayport Package Exp., Inc.*, 885 F.2d 531, 540 (9th Cir. 1989).
 15 Moreover “the rule may be relaxed as to matters within the opposing party's knowledge.” *Id.* Since
 16 Plaintiff pleads that the fraud occurred at the time both parties entered into the Partnership Agreement,
 17 the place of the alleged fraud is within Defendants' knowledge. Therefore, Plaintiff has stated a claim
 18 under Cal. Civ. Code § 1689(b)(1) and dismissal under Rule 12(b)(6) is denied on this point.

19
 20 4. *Statute of Limitations Does Not Bar Plaintiff's claim for Damages or
 Injunctive Relief Under the Oral Agreement*

21 California law provides for a two year statute of limitations period within which a suit for
 22 damages for breach of oral contract may be brought. In the instant case, Plaintiff claims that she relied
 23 on the Oral Rescission Agreement in not bringing suit for Defendants' use of the “Water Girl” mark
 24 within the two year statute of limitations. (Pl.'s Compl. ¶ 38.) Thus, Plaintiff alleges that she is entitled
 25 to an equitable extension of the statute of limitations. Because equitable tolling issues often require
 26 factual determinations, a claim asserting equitable tolling is generally not amenable to a Rule 12(b)(6)
 27 motion. *Supermail Cargo, Inc. v. United States*, 68 F.3d 1204, 1206-07 (9th Cir. 1995). Here,
 28 Plaintiff's Complaint alleges sufficient facts to establish timeliness of the claim. Accordingly,

1 Defendants' motion to dismiss is denied.

2

3 **B. MOTION FOR A MORE DEFINITE STATEMENT REGARDING THE STATUTE OF**
LIMITATIONS

4 A Rule 12(e) motion is only appropriate where the complaint is so indefinite that the defendant
 5 cannot ascertain the nature of the claim being asserted. *See Cellars v. Pacific Coast Packaging, Inc.*
 6 189 F.R.D. 575, 578 (N.D. Cal. 1999). A Rule 12(e) motion is not a substitute for discovery; such a
 7 motion attacks unintelligibility in a pleading, not mere lack of detail. *See Bureerong v. Uvawas*, 922 F.
 8 Supp. 1450, 1461 (C.D. Cal. 1996). Where the ground for rescission is fraud or mistake, the time
 9 does not begin to run until the discovery by the aggrieved party of the facts constituting the fraud or
 10 mistake. Cal. Civ. Proc. Code § 339. In this case, Plaintiff has not specified when she discovered the
 11 alleged breach of the Oral Rescission Agreement. Without knowing when Plaintiff claims to have
 12 discovered Defendants' unauthorized use, Defendants cannot ascertain whether the claims based on the
 13 Oral Rescission Agreement are timely. Accordingly, Defendants' motion for a more definite statement
 14 is granted as to Plaintiff's discovery of unauthorized use.

15 **IV. CONCLUSION**

16 Plaintiff has met the pleading requirements for all claims except trademark infringement under
 17 the Lanham Act. Therefore,

18 IT IS HEREBY ORDERED that Defendants' motion to dismiss is GRANTED, with leave to
 19 amend, solely as to Plaintiff's claim of Defendants' use of the "Water Girl" mark in interstate commerce
 20 under the Lanham Act. Plaintiff shall file her amended complaint within 20 days after entry of this
 21 order.

22 IT IS FURTHER ORDERED that Defendants' motion for a more definite statement is
 23 GRANTED solely as to the statute of limitations issue.

24 Dated: June 23, 2005

25 /s/ Patricia V. Trumbull
 26 PATRICIA V. TRUMBULL
 27 United States Magistrate Judge
 28